

The more things change, the more they are the same

CLOSE LOOK

VISHAL DHAWAN



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Multiple terms were used to describe this year's Budget, but "make or break" was among the most common. In my opinion, however, this was more like a continuation Budget than anything else. Management thinker Michael Porter said, "Finally, strategy must have continuity. It cannot be constantly reinvented." The biggest challenge for individuals planning their financial future is radical changes that can take place from year to year.

Taxation: The best thing about this Budget was what it did not do, which is bring back long-term capital gains tax or extend the holding period for equities to qualify for long term gains. For a country where the average investor has just about 4% exposure to equities, maintaining status quo means that equities continue to be the most efficient asset class to hold from a taxation perspective over the long term. While this by itself is not enough, the renewed focus on equalising tax treatment for retirement products by getting the New Pension System (NPS), Employees' Provident Fund (EPF) and superannuation funds means that investors will soon be in a position to make these investment decisions on the basis of merit and product construction, rather than the tax benefits available.

Mutual funds continue to have a tax arbitrage for the time being though, as they permit long-term wealth creation in a tax advantaged manner, even if the underlying mix has a combination of stocks and bonds.

Small businesses: Relatively smaller businesses with turnover up to ₹5 crore gained from a 1% reduction in tax rate. An increase in presumptive taxation thresholds, and introduction of presumptive

taxation for professionals earning up to ₹50 lakh, should result in lower compliance costs and time.

Simpler compliance is good news especially when a significant portion of the population is involved in small businesses.

Financial assets: The shift towards financial assets from physical assets continues to be a thrust area, with the gold monetisation scheme getting both interest and capital gains' tax exemption. In addition, indexation benefits for sovereign gold bonds have been introduced, making holding gold in a paper form much more attractive for gold investors. Apart from this, removal of dividend distribution tax (DDT) from income paid out by real estate investment trusts (REITs) is a step towards making real estate investments a financial asset from something that is held in a physical form.

More for investing: The government, by sticking to its fiscal deficit target for the year, and announcing a government borrowing programme that was lower than market expectations, could significantly help in the transmission of lower rates in the economy. This could finally result in lower instalments for borrowers. Bond investors could benefit as long-term interest rates could head downwards as a result, and a thrust on deepening the corporate bond market could also result in more fixed income alternatives for investors.

Higher incomes: When the surcharge on incomes above ₹1 crore was introduced, it was thought of as possibly a one-time levy. Alas, if you are in the super rich category, this levy has continued, and is now at an even higher level, with the surcharge being enhanced for incomes in excess of ₹1 crore from 12% to 15%. An additional DDT for dividends in excess of ₹10 lakh could hit incomes further.

Higher deduction: Deduction on rent paid, under section 80GG, could bring relief to a sub-section of tax payers who can now claim a higher deduction of ₹60,000 per annum from the earlier ₹24,000 a year. In addition, first-time home buyers could get an additional benefit of ₹50,000 for loans sanctioned up to ₹35 lakh and if the value of the home does not exceed ₹50 lakh.



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Thankfully, this Budget made no radical changes, and continued on the path of staying with a strategy that is working—more of the same.

Individual investors, too, should follow the same with their investment strategies as long as they work for you. Else, of course, correct course and repeat.

Vishal Dhawan is a certified financial planner, and founder, Plan Ahead Wealth Advisors.

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